

METHOD OF ADMINISTERING A HEALTH PLAN

ABSTRACT OF THE DISCLOSURE

A method of administering a health plan include compensating physicians to manage the cost and quality of health services provided to members of a health plan served by a plurality of physician groups. More specifically, the method includes developing a budgeted cost per episode of patient care for a program period for each of several physician groups based at least in part on the historic actual performance of each group; compiling data on actual cost per episode of patient care during the program period; comparing the group's actual cost per episode of patient care during the program period with the group's budgeted cost per episode of patient care for the program period, adjusted for changes in the severity of illness of the patients treated; sharing a portion of the savings resulting from a reduction in actual cost per episode of patient care with the group, the portion depending in part upon the group's cost performance in relation to the performance of other physicians in the applicable medical specialty, and in part on the group's performance on a quality indicator and/or patient satisfaction in relation to the performance of other physicians in the applicable medical specialty.